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ATTACHMENT 4.19-D (NF)

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**METHODS AND STANDARDS FOR DETERMINING PAYMENT RATES  
FOR SERVICES PROVIDED BY NURSING FACILITIES  
(NOT STATE OWNED)**

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**SECTION 1.000 INTRODUCTION**

**SECTION 1.010 General Purpose.** The purpose of the Minnesota Medicaid methods and standards for determining payment rates for nursing facilities, which are not state-owned, is to provide for payment of rates in conformity with applicable state and federal laws, regulations and quality and safety standards. In determining the rates, the Commissioner of the Department of Human Services will take into account the mix of resident needs, geographic location, and other factors. Minnesota has in place a public process which complies with the requirements of Section 1902(a)(13)(A) of the Social Security Act.

Nursing facilities participating in the Minnesota Medical Assistance Program are paid either by a prospective rate-setting methodology described in Sections 1.000 to 20.000, or by the contractual rate-setting methodology described in Section 21.000. These methodologies, established in Minnesota statutes and rules, are described in this attachment.

**SECTION 1.020 Overview.** A very brief description of the overall rate setting mechanism may be helpful. Cost reports are submitted annually. Nursing facilities have a common reporting year of October 1 to September 30. The common rate year of July 1 to June 30, lags the report year. The submitted cost reports are desk audited to determine allowable costs and then subject to various other cost category limitations. The rates that are set are subject to appeal. Rates may be adjusted retrospectively for field audit and appeal resolutions. ~~Minnesota has a 21-month inflation factor.~~ Nursing facilities in Minnesota cannot charge private paying residents rates which exceed the rate for medical assistance recipients receiving similar services in multiple bed rooms.

Minnesota's basic rate setting formula establishes an array of prospective payment rates that vary with a resident's care needs. The rate is composed of a care related rate plus other operating rate plus an inflation adjustment factor plus property payment rate. The total payment rate may include a shared efficiency incentive of up to \$2.25 per resident per day, provided the nursing home operates below the other operating cost limitations. This can be summarized by the following:

**A. Care Related Costs**

1. This type of cost is based on allowable care related costs from prior reporting years for each nursing facility. Only the nursing component varies with a resident's case mix.

2. Resident days and nursing care costs are adjusted using case mix weights to determine proportion of costs allocable to each of eleven payment classes.

3. There are eleven rates for each nursing facility based on the relative resource use and case mix needs of the resident.

4. Until July 1, 1999, homes are grouped by three geographic locations which set limits on rates. Special purpose or characteristic homes maybe treated differently for purposes of applying rate limits.

5. Homes can also trade off nursing and other care related expenditures within the combined limits for those two cost categories. Beginning July 1, 1998, these two limitations do not apply, except for purposes of determining a facility's efficiency incentive.

6. The care related costs include nursing salaries and supplies and non-prescription drugs.

7. The other care related costs include food costs, social services, activities etc.

**B. Overall Spending Limits Until July 1, 1999**

1. Pursuant to Section 11.045, the operating rate paid to a nursing facility will not be more than its prior year's allowed operating costs plus inflation plus a factor above inflation (on a per diem basis).

2. Pursuant to Section 11.045, a nursing facility determined to be high cost when compared to similar nursing facilities shall have its per diem costs reduced.

**C. Other Operating Costs Until July 1, 1999**

1. These costs are grouped by geographic location to set limits. Beginning July 1, 1998, nursing and other care related expenditures do not apply, except for purposes of determining a facility's efficiency incentive. Similarly, the maintenance and administrative cost categories no longer apply.

2. There is an efficiency incentive. Homes can receive an additional payment if costs are under the Other Operating Cost limit.

3. The other operating costs include such costs as remaining dietary, laundry and linen, housekeeping, plant operations and maintenance, general and administrative, and the remaining payroll taxes and fringe benefits.

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3. The sale of a nursing facility after June 30, 1992, may result in an increase in the nursing facility's property rate. The amount of that increase will be measured by the modified rental recalculation. An increase in interest expense is allowed within certain limitations. The amount of the "step-up" in the nursing facility's capital asset basis, if any, does not result in an a property rate increase since depreciation is not a component of property rate computation.

4. After September 1, 1992, nursing facility appraisals will no longer be needed except to resolve appraisal appeals. The nursing facility's appraised value will be indexed for inflation annually. Also, capital asset additions or deletions will be deducted from the indexed appraised values.

**F. Contractual Rate-setting Alternative Method After August 1, 1995**

1. A nursing facility may apply to be paid a contractual alternative payment rate instead of the cost-based payment rate established under Sections 1.000 to 20.000. Proposal requirements, selection criteria, limits, exemptions, and consumer protections are described in Section 21.000.

2. A nursing facility electing to receive an alternative payment rate must enter into a contract with the Department. All contracts entered into are for a term of four years one year.

3. Different contract terms may be negotiated for different facilities.

4. A nursing facility's case mix payment rates for the first rate year of a facility's contract is the payment rate the facility would have received under Sections 1.000 to 20.000.

5. Until July 1, 1999, a nursing facility's case mix payment rates for the second and subsequent years of a facility's contract are the previous rate year's contract payment rates plus an inflation adjustment.

6. A Medicare certified nursing facility electing to receive an alternative payment rate ~~is not required to file filing a Medicare cost report under state requirements but is required to submit a Medicare cost report must comply with Section 21.080, item A. A nursing facility that is not Medicare certified does not have to file a Medicare cost report, but must file a cost report as described in Section 2.000.~~

7. Certain other exemptions, such as an exemption from auditing requirements under applicable state laws, are outlined in Section 21.000.

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#### **D. Adjustment Factor**

1. Until July 1, 1999, all operating costs are updated annually by a 21 month inflation factor. The 21 month inflation factor accounts for the 9 month lag between the end of the reporting year (9/30) and the beginning of the rate year (the following 7/1). The Department contracts with an econometric firm to provide economic change indices for use in determining operation cost payment rates.

2. Until July 1, 1999, limits are established for a base year and are adjusted annually by a 12 month inflation index for the time period between the midpoints of cost reporting years. The process of indexing limits now extends to the overall spending limits.

3. Certain costs such as real estate taxes, special assessments, licensing fees, Public Employee Retirement Act pension contributions, and preadmission screening fees are passed through.

#### **E. Property Payment**

1. For the period July 1, 1992, to September 30, 1992, property rates continued as established under the current plan; that is, they will continue to be "frozen" with certain exceptions.

2. After September 30, 1992, a new property system took effect. That system establishes a minimum property rate equal to the greater of their current "frozen" property-related payment rate or \$4.00 per resident day. This rate may be subject to adjustment due to several factors which include:

a. An incremental increase as determined utilizing the State's former rental system with certain modifications such as a higher equipment allowance, adding the actual cost of a major projects with the application of a limit on investment, or the sale of the nursing facility.

b. An equity incentive payment which will encourage equity rather than debt financing of major projects. (effective 7/1/93)

c. A capital asset repair or replacement payment for purchases up to \$150 per licensed bed per year with a carryover of any excess. (effective 7/1/93)

d. A refinancing incentive for a refinancing that saves on annual interest expense payments (effective 7/1/93).